

under CBOE's hedge exemption rule provisions.

The rebasing of the Growth Index and the Value Index now makes it necessary to reduce the contract position limits to maintain the appropriate same maximum dollar value afforded under the originally approved limits. In order to reflect the same dollar value as that originally approved, the current position limits would need to be divided by 3.5. Dividing the current level of 125,000 contracts on the same side of the market by 3.5 would yield 35,714 contracts. However, in order to establish position limits of a round number for ease of administration and compliance, the Exchange is proposing an aggregate position limit of 36,000 contracts on the same side of the market for the Growth and Value Indexes. In addition, the Exchange is proposing to similarly reduce the amount of contracts in the series that may be in the nearest expiration date from 75,000 contracts to 21,500 contracts.⁶

The Exchange is also proposing to revise the 225,000 hedge exemption limit under Interpretation .01, as this amount was also designed to have a numerical relationship to the general position limits. The Exchange is proposing that this limit be reduced to 65,000 contracts. The 65,000 contract position limit is 1.805 times the new proposed position limit of 36,000 contracts. Similarly, under the current rule, the 225,000 contract hedge exemption position limit is 1.8 times the 125,000 contract position limit.

The Exchange believes that the proposed rule change is consistent with Section 6(b) of the Act in general and furthers the objectives of Section 6(b)(5) in particular in that it will promote just and equitable principles of trade by revising position limits in light of the recent rebasing of the two Indexes.

(B) Self-Regulatory Organization's Statement on Burden on Competition

The proposed amendments will not impose any burden on competition.

(C) Self-Regulatory Organization's Statement on Comments on the Proposed Rule Change Received from Members, Participants or Others

Comments were neither solicited nor received.

III. Commission's Findings and Order Granting Accelerated Approval of Proposed Rule Change

The Exchange has requested that the proposed rule change, as amended, be given accelerated effectiveness pursuant to Section 19(b)(2) of the Act to accommodate for the trading of Index options on or about November 7, 1995. The Commission finds that the proposed rule change is consistent with the requirements of the Act and the rules and regulations thereunder applicable to a national securities exchange, and, in particular the requirements of section 6(b)(5) thereunder. Specifically, the Commission believes that the CBOE proposal to reduce the contract position and exercise limits applicable to the Indexes should enhance investor protection and protect the public interest by helping to ensure that market participants cannot control unduly large positions in the Indexes in light of the Indexes' adjusted base values which, otherwise, would increase the manipulation potential of trading options thereon.

The Commission finds good cause for approving the proposed rule change, as amended, prior to the thirtieth day after the date of publication of the notice thereof in the Federal Register. As noted above, the Commission has approved the Value Index and the Growth Index for options trading, and the Exchange intends to list each Index for options trading on or about November 7, 1995. By accelerating approval, the proposed rule change, as amended, can become effective before the Exchange begins trading the applicable Index options and provide market participants adequate notice of the applicable position and exercise limits. Accordingly, the Commission believes that it is consistent with Sections 6(b)(5) and 19(b)(2) of the Act to approve this proposed rule change on an accelerated basis.

For the same reasons, the Commission finds good cause for approving Amendment No. 1 to the proposed rule change prior to the thirtieth day after the date of publication of the notice thereof in the Federal Register. Specifically, Amendment No. 1 proposes to reduce the position limits as originally proposed in this filing to position limits more in line with the rebasing of the Growth Index and Value Index.⁷ The Commission believes that these position limits are appropriate in light of the rebasing of the Indexes by a factor of 3.5. Accordingly, the

Commission believes that it is consistent with Sections 6(b)(5) and 19(b)(2) of the Act to approve Amendment No. 1 to the CBOE proposal on an accelerated basis.

The Commission also finds good cause for approving Amendment No. 2 to the proposed rule change prior to the thirtieth day after the date of publication of the notice thereof in the Federal Register. Specifically, Amendment No. 2 proposes to change the name of each Index from S&P/Barra Growth and S&P/Barra Value to S&P 500/Barra Growth and S&P 500/Barra Value, respectively. The Commission notes that changing the name of each Index does not raise any new regulatory issues. Accordingly, the Commission believes that it is consistent with Sections 6(b)(5) and 19(b)(2) of the Act to approve Amendment No. 2 to the CBOE proposal on an accelerated basis.

IV. Solicitation of Comments

Interested persons are invited to submit written data, views and arguments concerning the foregoing proposal including Amendment Nos. 1 and 2. Persons making written submissions should file six copies thereof with the Secretary, Securities and Exchange Commission, 450 Fifth Street, N.W., Washington, D.C. 20549. Copies of the submission, all subsequent amendments, all written statements with respect to the proposed rule change that are filed with the Commission, and all written communications relating to the proposed rule change between the Commission and any person, other than those that may be withheld from the public in accordance with the provisions of 5 U.S.C. 552, will be available for inspection and copying in the Commission's Public Reference Section, 450 Fifth Street, N.W., Washington, D.C. Copies of such filing will also be available for inspection and copying at the principal office of the CBOE. All submissions should refer to SR-CBOE-95-64 and should be submitted by November 27, 1995.

It is therefore ordered, pursuant to Section 19(b)(2) of Act,⁸ that the proposed rule change (File No. SR-CBOE-95-64), as amended, is hereby approved on an accelerated basis.

For the Commission, by the Division of Market Regulation, pursuant to delegated authority.⁹

Margaret H. McFarland,
Deputy Secretary.

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⁶ This new proposed nearest expiration date limit of 21,500 contracts is slightly less than 60% of the new proposed 36,000 contract limit, just as the current nearest expiration date restriction of 75,000 contracts is 60% of the current position limit of 125,000 contracts.

⁷ See supra note 3.

⁸ 15 U.S.C. 78s(b)(2).

⁹ 17 CFR 200.30-3(a)(12).

[Release No. 34-36436; File No. SR-DTC-95-14]

Self-Regulatory Organizations; The Depository Trust Company; Notice of Filing of a Proposed Rule Change Seeking Depository Eligibility of Fractional Shares and Cent-Denominated Securities

October 30, 1995.

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 ("Act"),¹ notice is hereby given that on August 4, 1995, The Depository Trust Company ("DTC") filed with the Securities and Exchange Commission ("Commission") the proposed rule change (File No. SR-DTC-95-14) as described in Items I, II, and III below, which items have been prepared primarily by DTC. The Commission is publishing this notice to solicit comments on the proposed rule change from interested persons.

I. Self-Regulatory Organization's Statement of the Terms of Substance of the Proposed Rule Change

DTC is filing the proposed rule change to make fractional shares and cent-denominated securities eligible for book-entry delivery and other DTC services.

II. Self-Regulatory Organization's Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change

In its filing with the Commission, DTC included statements concerning the purpose of and basis for the proposed rule change and discussed any comments it received on the proposed rule change. The text of these statements may be examined at the places specified in Item IV below. DTC has prepared summaries, set forth in sections (A), (B), and (C) below, of the most significant aspects of such statements.²

(A) Self-Regulatory Organization's Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change

The purpose of the proposed rule change is to make cent-denominated securities and fractional shares eligible for book-entry delivery and other DTC services. The proposal is being made in response to numerous requests made by DTC participants.³ This proposal

anticipates the accelerated securities processing environment that will be triggered by the conversion of DTC's money settlement system to an entirely same-day funds settlement ("SDFS") system. DTC is proposing to implement the eligibility of fractional shares on a voluntary basis.⁴

1. Cent-Denominated Securities

DTC estimates that approximately 6,000 cent-denominated issues exist for which DTC eligibility will become possible if the Commission approves DTC's proposed rule change. Of those 6,000 issues, DTC estimates that 350 are treasury receipts.⁵

Under the proposed rule change, participants will deposit cent-denominated securities at DTC by using DTC's Deposit Automation Management ("DAM") service. DTC will in turn submit such securities to the appropriate transfer agent. However, the cents portion of the aggregate dollar figure for the deposited securities will be "truncated" (i.e., cut off). Having eliminated the cents portion from the position, DTC only will reflect the whole dollar amount of deposits in the participant's account at DTC. For example, if a participant deposits ten certificates at \$1.15, \$11.00 will be credited to the participant's DTC account, and the remaining fifty cents will be truncated. All related services and transactions thereafter will be effected in whole dollar increments, including principal and income payments.

The truncated amounts will be collected in an internal DTC account. The sum is not expected to be significant at first and therefore will not warrant the expense of developing a complex system to credit the truncated cents to each respective depositing participant as the amounts accumulate.

eligible including cent-denominated securities and fractional shares.

⁴ *Infra* note 13.

⁵ This estimate is based on information compiled by a DTC participant. Treasury receipts are proprietary products of broker-dealers created by stripping the coupons from U.S. Treasury securities ("Treasures") with the resulting instrument representing an interest in the stripped coupons or in the remaining principal (i.e., zero coupon products). Subsequently, the U.S. Treasury began issuing STRIPS (Separate Trading of Registered Interest and Principle of Securities) bonds which essentially replaced the Treasury receipt in function. The Treasury issues STRIPS in a form that allows dealers to sell them immediately as zero-coupon products and do not require the repackaging steps that are necessary to transform straight Treasures into zero-coupon instruments. Other newly eligible issues will include church bonds and various other securities types. Church bonds are securities issued by a religious organization to finance building or renovation projects. These securities typically are issued in small dollar amounts within a confined geographical area.

Instead, the cents and any income derived therefrom will become part of DTC's general revenues. Because DTC refunds revenues in excess of its costs to its participants, DTC in effect will pass along the value of the truncated cents to participants as part of DTC's general refund when and if refunds of excess revenues are distributed.⁶ Participants also will forfeit any voting rights on truncated cents. In time, depending on the size of the accumulated truncated amounts, DTC may reconsider developing a tacking mechanism to credit these amounts to the accounts of depositing participants.

DTC believes that the actual financial effect on its participants of the cent truncation will be negligible and well within industry practice for reconciling de minimis differences in such things as deliveries and deposits. DTC estimates that if all cent-denominated certificates held by its participants were deposited at DTC, the scale of the financial impact of the cent truncation would be as set forth below.

According to a 1992 survey, thirty-one DTC participants held cent-denominated securities represented by 57,114 certificates and more than 8,000 CUSIP numbers. The value of these positions in 1992 was approximately \$37 million. Distributed among the DTC's entire participant base, the total value of the truncated cents is estimated to be less than \$22,000. This figure is the result of three calculations:

(i) The average number of certificates for a DTC registered deposit is four; therefore, assuming that an average of four certificates is included in each deposit, the estimated number of deposits for the surveyed participants would be 14,278 (57,114 certificates ÷ 4 certificates per deposit).

(ii) Assuming that the average truncation for each deposit is fifty cents,⁷ the aggregate value of the cents portion would be \$7,139 for the surveyed participants (\$50 × 14,278).

(iii) The surveyed participants represent approximately thirty-three percent of DTC's monthly billing total. Extrapolating from this percentage for all DTC participants depositing cent-denominated securities into their DTC accounts, the estimated total truncated portion of cents would be \$21,631 (\$7,139 × 3.03 [mathematical inverse of thirty-three percent] = \$21,631).

⁶ Any refunds from the truncation program will be distributed to all DTC participants not only those participants depositing cent-denominated securities.

⁷ This is the median between the lowest possible truncation amount (zero cents) and the highest possible truncation amount (99 cents).

¹ 15 U.S.C. 78s(b)(1) (1988).

² The Commission has modified the text of the summaries prepared by DTC.

³ In 1992, the results of a survey of DTC participants showed that most responding participants wished to have certain types of issues not then eligible for depository services made DTC-

If the \$21,631 were distributed equally among all DTC participants as part of a general refund, the following distributions can be projected. DTC's last excess revenue refund to its participants was \$8,000,000, and the largest portion returned to a participant was \$372,876, which represented 4.7 percent of the total refund. The smallest portion returned was \$8, which represented .0001 percent of the total refund. Using these percentages, the largest possible refund would be \$1,016 (4.7 percent of \$21,631); the smallest possible refund would be two cents (.0001 percent of \$21,631); and the average refund would be approximately \$49 (\$21,631 ÷ 441 direct participants = \$49.05).⁸

2. Fractional Shares

DTC also wishes to make securities denominated in fractional shares eligible for deposit.⁹ DTC proposes to carry the fractional portions under a contra-CUSIP number, with full shares being reflected in the primary CUSIP. Delivery orders and pledges will not initially be permitted to be denominated in fractional shares.¹⁰ However, DTC participants will have the option as the fractional shares accumulate to full shares under the contra-CUSIP to add them to the preliminary CUSIP where they will be eligible for all activities.¹¹ Alternatively, the fractional shares can be left in the contra-CUSIP. DTC also will provide enhanced physical processing so that deposits and withdrawals-by-transfer containing both whole and fractional shares can be combined, and DTC will handle the process of separating the whole shares to the primary CUSIP and the fractional shares to the contra-CUSIP.

DTC believes the proposed rule change is consistent with the requirements of Section 17A(b)(3)(F)¹² of the Act and the rules and regulations thereunder applicable to DTC in that it promotes efficiencies in the clearance

and settlement of securities transactions.

(B) Self-Regulatory Organization's Statement on Burden on Competition

DTC does not believe that the proposed rule change will impose any burden on competition not necessary or appropriate in furtherance of the purposes of the Act.

(C) Self-Regulatory Organization's Statement on Comments on the Proposed Rule Change Received from Members, Participants, or Others

Responses to DTC's current proposal were generally favorable. Participants that commented were pleased to learn of DTC's initiative to extend depository services to fractional shares and cent-denominated securities and indicated that the effort will be beneficial to their individual firms as well as to the securities industry overall. They indicated that they viewed the initiative as being consistent with the industry's long-term goal of achieving a centralized processing environment for physical securities, particularly with the goals of DTC's DAM Program and the Vision 2000 Committee's recommendations.¹³

In August 1994, a memorandum detailing DTC's proposal for handling cent-denominated securities was issued for participant comment. Responding participants generally agreed with the proposal. Participants attending a forum on this subject on August 18, 1994, were also largely in agreement.

The current contra-CUSIP approach for fractional shares is a realistic near-term improvement on the status quo.¹⁴ It enables DTC to accommodate those participants that wish to reduce or eliminate their vault holdings and permits DTC to provide at least limited services for fractional shares. At the same time, participants choosing not to

use the service will not be obliged to make the substantial system changes necessitated by the inauguration of a book-entry delivery capability for these securities.¹⁵

III. Date of Effectiveness of the Proposed Rule Change and Timing for Commission Action

Within thirty-five days of the date of publication of this notice in the Federal Register or within such longer period (i) as the Commission may designate up to ninety days of such date if it finds such longer period to be appropriate and publishes its reasons for so finding or (ii) as to which DTC consents, the Commission will:

(a) By order approve such proposed rule change or

(b) Institute proceedings to determine whether the proposed rule change should be disapproved.

IV. Solicitation of Comments

Interested persons are invited to submit written data, views, and arguments concerning the foregoing. Persons making written submissions should file six copies thereof with the Secretary, Securities and Exchange Commission, 450 Fifth Street NW., Washington, DC 20549. Copies of the submission, all subsequent amendments, all written statements with respect to the proposed rule change that are filed with the Commission, and all written communications relating to the proposed rule change between the Commission and any person, other than those that may be withheld from the public in accordance with the provisions of 5 U.S.C. 552, will be available for inspection and copying in the Commission's Public Reference Room, 450 Fifth Street NW., Washington, DC 20549. Copies of such filing will also be available for inspection and copying at the principal office of DTC. All submissions should refer to the file number SR-DTC-95-14 and should be submitted by November 27, 1995.

For the Commission by the Division of Market Regulation, pursuant to delegated authority.¹⁶

⁸ Participants will also garner the benefit of administrative efficiencies that will attend the elimination of pennies. Specifically, fewer keystrokes will be required to enter penny amounts, and less record surveillance will be required to account for and reconcile penny amounts.

⁹ A fractional share is a unit of stock less than one full share.

¹⁰ DTC is also investigating the possibility of developing and providing a limited delivery capability that would require receiver authorization prior to a delivery being made.

¹¹ DTC participants will also have the ability to break up full shares under the primary CUSIP into fractional shares under the contra-CUSIP although the resulting fractional shares will not be initially eligible for deliver orders or for pledging purposes.

¹² 15 U.S.C. 78q-1(b)(3)(F) (1988).

¹³ The Vision 2000 Committee is comprised of representatives from the Boards of Directors of DTC and the National Securities Clearing Corporation. Its focus is on the elimination of inefficiencies and redundancies, the maximization of technology, and the reduction in costs in the clearance and settlement industry both within and without the United States. The Vision 2000 Committee's recommendations are discussed in the Report of the Vision 2000 Committee (September, 1994).

¹⁴ DTC's initial proposal for handling fractional shares, communicated to participants in August 1994, did not contemplate implementing the contra-CUSIP approach on a voluntary basis. Participants responding at that time expressed reservations about anticipated difficulties in reconciliation as well as in providing programming resources given that such resources were seen as already fully committed to the upcoming change to a same-day funds settlement system and to a T+3 settlement cycle. To address its participants' concerns, DTC devised the current proposal that provides for voluntary implementation. This newer, more flexible approach was described to participants in a notice dated December 14, 1994.

¹⁵ Offering DTC participants the ability to make book-entry deliveries of fractional shares will be the first step in the development of processing capabilities for fractional shares. DTC will continue to monitor its participants' need for book-entry delivery as experience with this service is gained. The use of a single, primary CUSIP for entire positions will also be explored.

¹⁶ 17 CFR 200.30-3(a)(12) (1994).

Margaret H. McFarland,
Deputy Secretary.
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[Release No. 34-36437; File No. SR-DTC-95-15]

Self-Regulatory Organizations; The Depository Trust Company; Notice of Filing of a Proposed Rule Change Relating to Processing Securities With Indexed Principal Features Through the Receiver Authorized Delivery Facility

October 30, 1995.

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 ("Act"),¹ notice is hereby given that on August 23, 1995, The Depository Trust Company ("DTC") filed with the Securities and Exchange Commission ("Commission") the proposed rule change (File No. SR-DTC-95-15) as described in Items I, II, and III below, which items have been prepared primarily by DTC. The Commission is publishing this notice to solicit comments on the proposed rule change from interested persons.

I. Self-Regulatory Organization's Statement of the Terms of Substance of the Proposed Rule Change

DTC is filing the proposed rule change to require transactions in securities issued under a Money Market Instrument ("MMI") program having an indexed principal² feature and settling in DTC's Same Day Funds Settlement ("SDFS") system to be directed to DTC's Receiver Authorized Delivery facility ("RAD").³ RAD requires the receiver to authorize the transaction prior to it being processed by DTC.

II. Self-Regulatory Organization's Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change

In its filing with the Commission, DTC included statements concerning the purpose of and basis for the proposed rule change and discussed any comments it received on the proposed rule change. The text of these statements

may be examined at the places specified in Item IV below. DTC has prepared summaries, set forth in sections (A), (B), and (C) below, of the most significant aspects of such statements.⁴

(A) Self-Regulatory Organization's Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change

The purpose of the proposed rule change is to ensure that DTC participants receiving a valued delivery of MMI securities with an indexed principal feature will receive complete and accurate information about whether or not such securities have an indexed principal feature. The value of MMI securities with an indexed principal feature may change dramatically in a short period of time; therefore, DTC's participants have asked DTC to develop controls to ensure that participants have accurate information about this feature before accepting delivery of such a security. DTC has responded to these concerns by developing procedural changes that will reduce the likelihood that a DTC participant will purchase this type of security without full knowledge of its indexed principal feature.

Under the proposal, DTC will require mandatory authorization from receivers of securities having an indexed principal feature before DTC will process the transaction. DTC participants will transmit such authorization via DTC's RAD facility.⁵ In addition, DTC will revise its twenty and forty-eight character CUSIP descriptions to include a unique identifier that will indicate that an issue has an indexed principal feature.

DTC believes the proposed rule change is consistent with the requirements of Section 17A of the Act⁶ and the rules and regulations thereunder because it promotes the prompt and accurate clearance and settlement of transactions in securities that settle in same-day funds. The proposed rule change will be implemented in a manner designed to safeguard the securities and funds in DTC's custody or under its control.

(B) Self-Regulatory Organization's Statement on Burden on Competition

DTC does not believe that the proposed rule change will impose any burden on competition not necessary or

appropriate in furtherance of the purposes of the Act.

(C) Self-Regulatory Organization's Statement on Comments on the Proposed Rule Change Received From Members, Participants, or Others

In June 1995, DTC released a memorandum to its participants about DTC's efforts to provide more complete information regarding the indexed principal feature of MMI securities. Written comments from DTC participants or others have not been solicited on the proposed change; however, State Street Bank and Trust Company ("State Street") submitted a comment letter to DTC expressing two concerns regarding the proposed rule change. First, State Street wrote that it currently uses DTC's Main Frame Dual Host System ("MDH") for daily settlement purposes rather than DTC's Participant Terminal System ("PTS"). State Street explained that because the new RAD authorization function only is available on PTS and not MDH, it would be forced to process the new RAD authorizations manually. DTC responded to State Street's concern by agreeing to enable them to process the new RAD authorizations through MDH.

Secondly, State Street commented that DTC should be able to provide accurate and complete issuance information without the need for an additional RAD control. DTC responded in its letter to State Street that DTC participants and the Public Securities Association ("PSA") asked DTC to develop a method of identifying securities with an indexed principal feature and a procedure to affirmatively notify participants when they take delivery of securities having such a feature. DTC participants and the PSA requested the development of these procedures to ensure that DTC participants know before taking delivery that a particular security has an indexed principal feature. DTC believes that the proposed rule change effectively addresses these requests.

III. Date of Effectiveness of the Proposed Rule Change and Timing for Commission Action

Within thirty-five days of the date of publication of this notice in the Federal Register or within such longer period (i) as the Commission may designate up to ninety days of such date if it finds such longer period to be appropriate and publishes its reasons for so finding or (ii) as to which DTC consents, the Commission will:

(a) By order approve such proposed rule change or

¹ 15 U.S.C. 78s(b)(1) (1988).

² An "indexed principal" is principal directly derived by reference to a currency, composite currency, commodity, or other financial index.

³ For a description of DTC's RAD facility, refer to Securities Exchange Act Release Nos. 25886 (July 8, 1988), 53 FR 26698 [File No. SR-DTC-88-07] (notice of filing and immediate effectiveness of the RAD facility) and 35720 (May 16, 1995), 60 FR 27360 [File No. SR-DTC-95-07] (order granting accelerated approval of a \$15 million per transaction minimum threshold to utilize the RAD facility for approval or cancellation of deliveries).

⁴ The Commission has modified the text of the summaries prepared by DTC.

⁵ The transactions will be directed to DTC's existing RAD facility; however, they will be subject to a separate approval and reporting process.

⁶ 15 U.S.C. 78q-1 (1988).